United Canso Oil & Gas Ltd. 1973 Annual Report

Directors and Officers

Directors

Albert H. Barton
John W. Buckley
Priscilla L. Buckley
Benjamin W. Heath
C. Dean Reasoner
Roland J. Richardson
John T. Sinclair, Jr.

Officers

John W. Buckley
President

Roland J. Richardson
Vice President and General Manager

Arthur B. O'Donnell
Vice President

George Pilkington
Secretary and Treasurer

K. Ross Jordan
Assistant Secretary and Assistant Treasurer

B. D. Patterson
Assistant Secretary

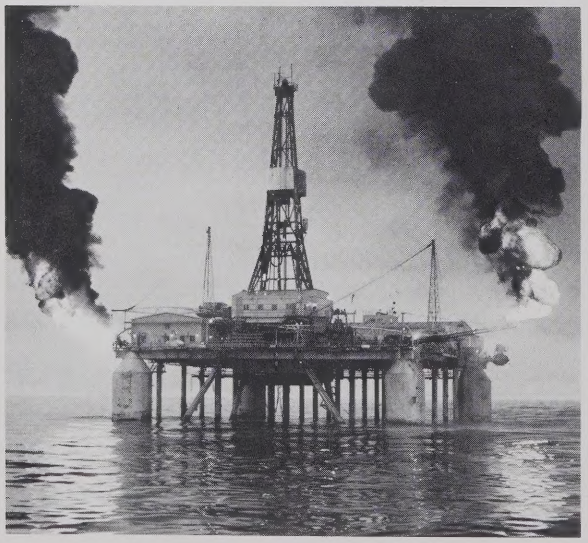
Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

Montreal Trust Company, 15 King Street West, Toronto, Ontario M5H 184
The First Jersey National Bank, 2 Montgomery Street, Jersey City, N.J. 07303
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054

Inquiries or requests for additional information concerning United Canso Oil & Gas Ltd. should be addressed to the Company, c/o The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, or to 940 Eighth Avenue South West, Calgary, Alberta, Canada T2P 1H8



COVER PHOTO — Santa Fe International's BLUE WATER III drilling unit is shown during the flow testing of the Halibut Group's 211/18-4 well in the Thistle Field. The smallest of the semi-submersible drilling units operating in the North Sea, it completed a total of eight wells during its first year of operations in these waters, four of which were located in the Thistle Field.

The drilling unit is able to work year-around in the North Sea by moving to the south during the winter months. It will return to the northern waters in the spring for additional drilling on Block 211/18.

To the Shareholders

Two years ago we described United Canso's entry into North Sea oil exploration off the northeast coast of Scotland as a move in conformity with management's continuing objective of achieving broad geographic exposure to high-risk, high-potential oil search ventures. Within nine months of that announcement we were able to report a substantial oil discovery by the Company and its Halibut Group partners on Block 211/18 in the British sector of these waters. By August 1973 we could report that follow-up drilling in a single corner of that block had confirmed a major commercial oil field containing reserves sufficient to justify initial production, after development, at the rate of 200,000 barrels per day of light gravity, sulfur-free oil.

The long-range benefits likely to accrue to United Canso from its 20 percent interest in Block 211/18 are manifestly impossible to assess with complete certainty at this stage. Exploration on the block thus far has been limited to a small segment of the entire area. Moreover, long-term price forecasting in our industry is at best a fragile exercise. Nevertheless, the market prognosis for the foreseeable future is that world crude prices appear destined to continue their present upward trend.

As a case in point, the posted price for Nigerian crude of similar gravity to that recovered from the Halibut Group's new Thistle Field advanced from $4.00 per barrel in June of 1973 to $8.40 per barrel in November, with spot shipments in the later period selling at almost double the November figure per barrel. It seems only reasonable to assume that early in 1976, when the Thistle Field is slated to go on stream, crude from this North Sea source is likely to be commanding prices above present levels. In view of the fact that your Company's share of the initial production from the first Thistle Field platform will in all probability approximate 40,000 barrels per day, the ultimate impact of the price to be realized for the field's high grade, sulfur-free crude oil can be readily appreciated.

Since exploration on Block 211/18 has been confined thus far only to the southeast corner of the block, the 1974 schedule by the Halibut Group includes two exploratory ventures, one of which is likely to test a promising structure in the northern sector of the 49,000-acre block, as well as two appraisal wells. Meantime, design studies for the Thistle Field's initial production platform and ancillary facilities are under way.

The Company also continues to be active in other promising geographical areas, including the Norwegian sector of the North Sea, Cardigan Bay in the Irish Sea, central Australia, western Canada and the Arctic Islands, Wyoming and Alaska. Summary statements covering operations in these areas will be found in the Operations Review section of this report.

We wish to acknowledge with warm appreciation the continued interest and support of the Company's shareholders, and the contributions and dedication of our employees at Calgary and in the field.

On behalf of the Board of Directors,

John W. Buckley

John W. Buckley,
President

Calgary, Alberta
December 14, 1973

Highlights

Operations in the North Sea where United Canso is a 20 percent participant in the newly-discovered Thistle Field, with indicated productive capacity, following development, of 200,000 barrels per day, highlighted Company activities in fiscal 1973. In central Australia, the initial stage of a major gas development program under terms of a 1972 agreement with Pacific Lighting Gas Development Company was commenced with the successful drilling of the first Palm Valley assessment well. In western Canada, United Canso participated in the drilling of 18 exploratory wells, of which six were gas and four were oil discoveries. Elsewhere, oil search programs were focused on Company-interest properties in the Canadian Arctic Islands and Northwest Territories, in Wyoming and the British sector of the Irish Sea. Additional Company-interest properties are located on the Alaskan North Slope and offshore Nova Scotia, with applications currently pending for a number of acreage blocks in the Norwegian sector of the North Sea.

ACREAGE SUMMARY — SEPTEMBER 1973

		Net Company Interest	
Petroleum	*Gross Acres*	*Acres*	*%*
CANADA			
Arctic Islands (Panarctic Area)	6,814,030	906,248	13.3
Yukon & Northwest Territories	758,185	497,871	65.7
Western Canada	1,105,094	203,345	18.4
Nova Scotia	91,951	22,988	25.0
UNITED STATES			
Alaska	942,339	235,585	25.0
Wyoming, Montana	144,432	88,974	61.6
AUSTRALIA			
Northern Territory	12,693,120	3,935,575	31.0
UNITED KINGDOM			
Cardigan Bay	62,838	31,419	50.0
North Sea	49,018	9,804	20.0
VENEZUELA	21,000	—	—
Total Petroleum	22,682,007	5,931,809	26.1
Minerals			
Australia	3,792,640	113,116	3.0
Canada	11,650	2,330	20.0
Total Minerals	3,804,290	115,446	3.0
GRAND TOTAL	26,486,297	6,047,255	22.8

United Canso Oil & Gas Ltd.
Areas of Activity

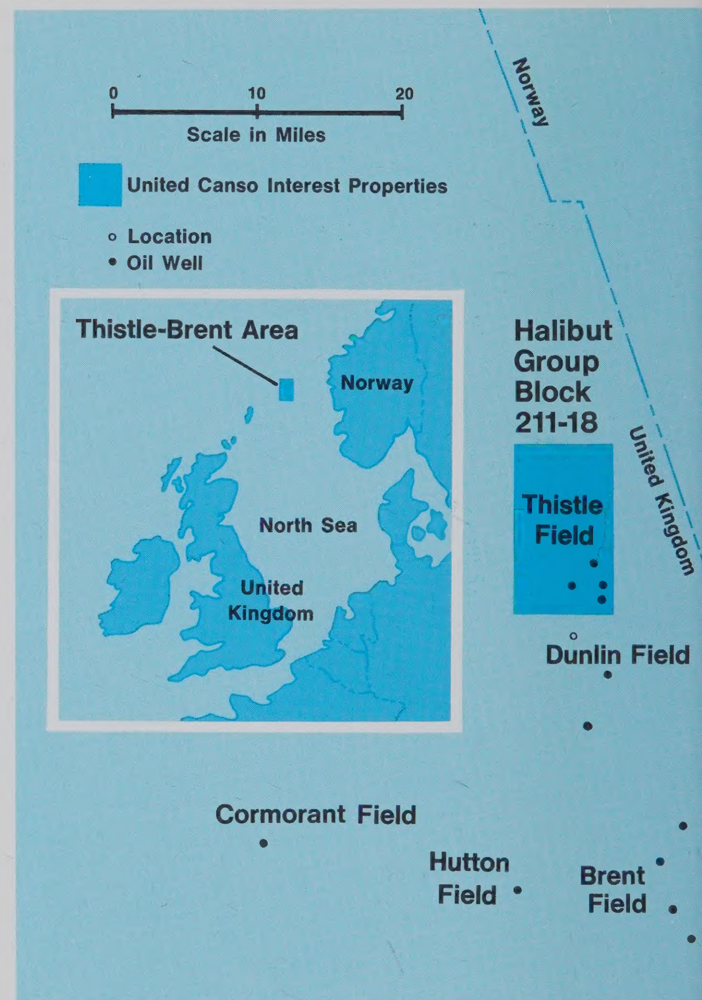
Operations Review

Petroleum Exploration United Kingdom

Events in United Kingdom offshore areas during 1973 confirmed the high expectations held for this promising region by the international petroleum industry. Attention has been focused primarily on the prolific East Shetland basin, east of Scotland's Orkney and Shetland islands, where six major oil finds have so far been recorded, including the Halibut Group's Thistle Field, in which your Company holds a 20 percent working interest.

In 1973 alone four new oil fields were discovered and several earlier finds were either proven commercial or had their limits extended through additional drilling. At the year end several important exploratory tests were under way on contiguous or nearby lands and much additional drilling is planned for this region during 1974.

In addition to oil search activity in the United Kingdom sector of the North Sea, the first well to test ocean bottoms in the Irish Sea off Britain's west coast was drilled in mid-1973 at a location some 50 miles south of a block in which United Canso holds a 50 percent working interest. This well, though unsuccessful, appears to have ushered in a period of heightened exploratory activity in the Irish Sea during coming years.



North Sea Area

North Sea

As reported in last year's exploration summary, the Halibut Group's first well on Block 211/18, some 85 miles northeast of the Shetland Islands, discovered oil and was flow-tested through a half-inch bottom hole choke at an average rate of 5,293 barrels of oil per day.

In early June 1973, the drilling of a second well was commenced on Block 211/18 at a location some two miles east of the first venture. This second discovery well, 211/18-2, encountered a net pay section of 315 feet which flow tested from two perforated intervals totaling 24 feet at a combined restricted rate of 8,403 barrels per day of sulfur-free oil. A third well, 211/18-3, was next drilled about one and three-fourths miles north of the 211/18-2 well. Once again, significant success attended the drilling efforts, whereupon the Halibut Group announced that its follow-up drilling through August 1973 had confirmed a major commercial oil field. The new discovery, it added, would be known henceforth as the Thistle Field, named for the national emblem of Scotland.

Before releasing the Bluewater III drilling vessel, it was decided to drill a fourth well midway between 211/18-2 and the southern edge of the block to aid in selecting a location and design specifications for a production platform. This well also was successful, encountering a net pay zone of 271 feet. Test results and net pay thicknesses of the Thistle Field wells drilled in 1973 are summarized in the accompanying table.

Since the field's limits remain to be defined, it is premature to speculate on Thistle's ultimate potential. However, exploration to date has confirmed the presence of sufficient reserves to justify an initial production rate, after development, of 200,000 barrels of oil per day. Design studies for the initial platform and ancillary facilities to handle this level of production are presently under way, with production expected to commence early in 1976.

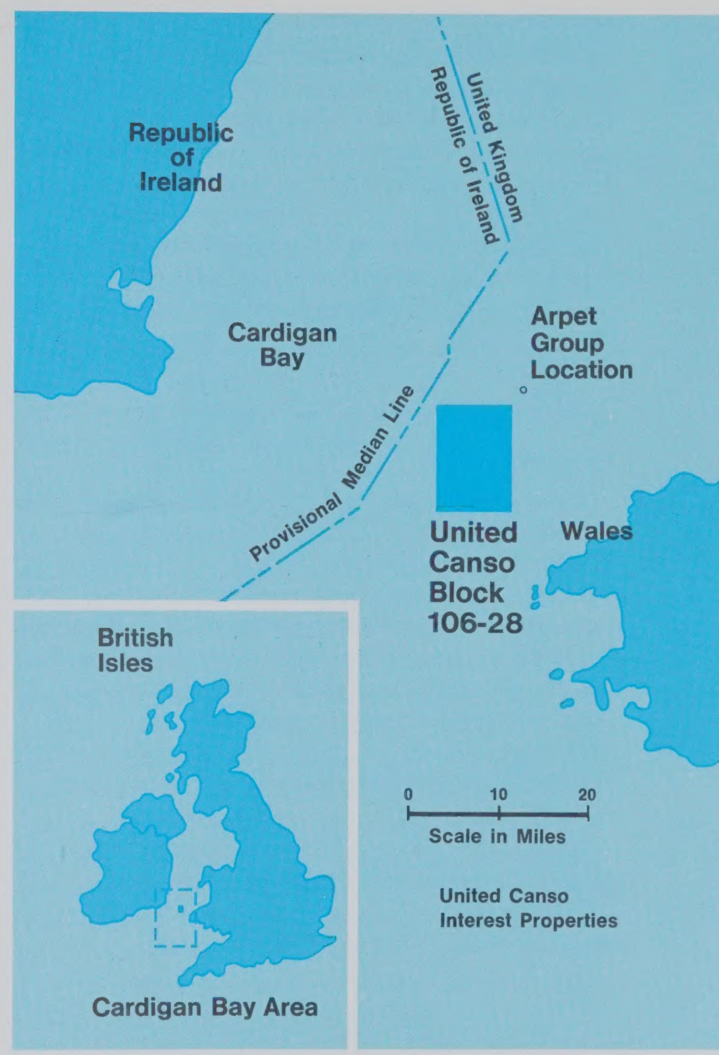
Well	*Estimated Net Pay (Feet)*	*Flow-restricting Choke Size**	*Perforated Interval (Feet)*	*Test Rate Barrels of Oil Per Day*
211/18-2	315	½ inch B.H.	4	2,897
		½ inch B.H.	20	5,506
211/18-3	371	½ inch B.H.	20	6,200
211/18-4	271	½ inch T.H.	20	5,200

*(B.H. — Bottom Hole; T.H. — Top Hole)

The Halibut Group plans to drill four wells on Block 211/18 during the 1974 drilling season, two of which are scheduled as exploratory ventures and two as appraisal wells. Although the locations of these tests have not yet been determined, one wildcat is expected to be located on a promising structural feature in the northern part of the block. The locations of the other exploratory wells will depend to some extent on the results of studies currently in progress, as well as on the outcome of drilling undertaken by others to the south and east of Block 211/18.

It should be emphasized that exploration thus far has been confined to the southeast sector of the block. In addition to obvious Thistle Field extension possibilities both to the north and west of the existing wells, seismic evidence indicates the presence of a number of other prospects within the permit which are considered to have excellent potential. In view of this, it is possible that drilling scheduled for next summer could increase substantially the productive capabilities of the block.

United Canso and other members of the Halibut Group also have taken part in a number of reconnaissance seismic surveys covering unallocated North Sea acreage with a view to evaluating areas which may become available in future United Kingdom licensing rounds.



Cardigan Bay Area

Cardigan Bay

During the past year, a marine seismic program was carried out by United Canso, as operator, covering Block 106/28 in which the Company holds a 50 percent working interest. Several prospective areas were defined by this survey, and an exploratory well will be drilled in the near future to test the most promising of these prospects.

Since the end of the fiscal year, the Arpet Group, of which an Atlantic Richfield subsidiary is operator, announced plans to drill a test well on Block 106/24, approximately two and one-half miles northeast of Block 106/28. The results of this drilling may also affect the timing of drilling on Block 106/28.

Norway

United Canso has a 10 percent interest in a group headed by Monsanto Oil Company, which has been formed to apply for acreage in the Norwegian sector of the North Sea. Considerable seismic data with respect to this area were acquired by the group and interpreted during the past year, following which applications were made for a number of tracts. A decision on allocation of these blocks by the Norwegian Government is expected early in 1974.

Australia

The Palm Valley gas field in central Australia continued during 1973 to be the principal center of attention of the Company and its partners in Northern Territory exploration. The first assessment well drilled under the 1972 agreement with Pacific Lighting Gas Development Company, Palm Valley No. 3, was successfully completed last April, and a second project, also carried out in conjunction with the Pacific Lighting agreement, resulted in greatly increasing the deliverability of the Palm Valley No. 1 discovery well.

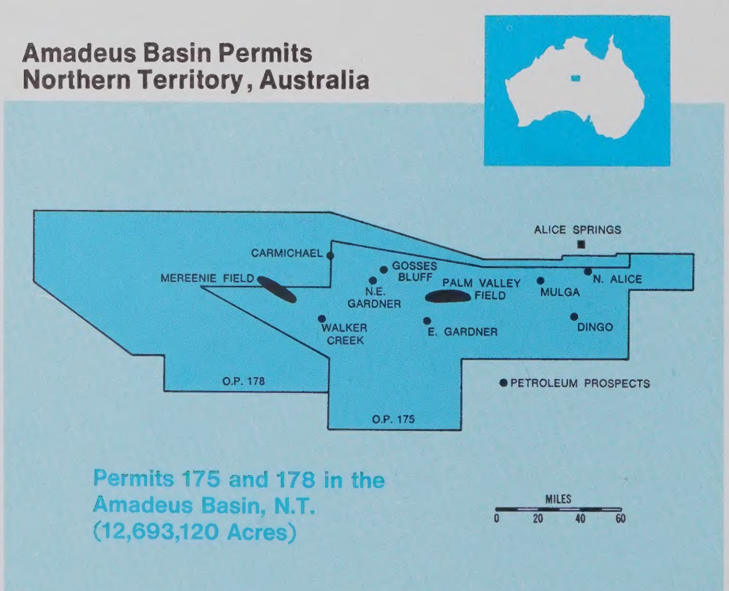
New production and geologic data developed as a consequence of the drilling procedures utilized in the 1973 program suggest strongly that gas deliverability rates at Palm Valley are influenced by the numbers of fractures intersected in the drilling process. This hypothesis, reinforced through related research undertaken in 1973, will be utilized in the selection of the next Palm Valley well, the drilling of which hopefully will be commenced early in 1974.

Meantime, definitive guidelines are awaited from the Australian Government setting forth its official policies with respect to exploration and development of energy fuels, and the production, marketing and exportation of natural gas supplies, in particular.

North America
Canada
Arctic Islands

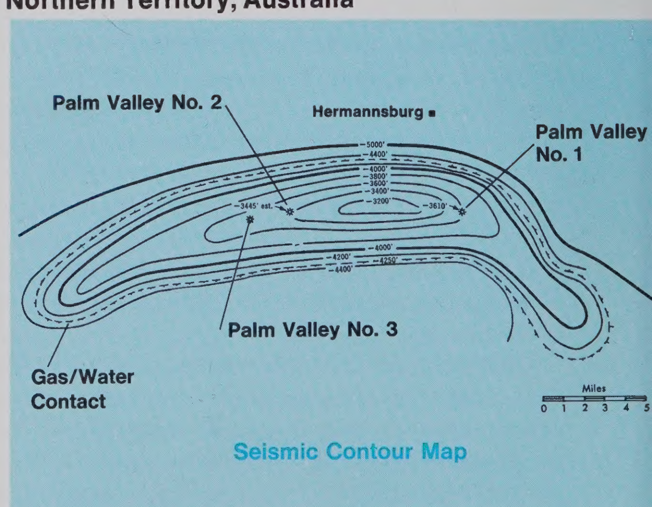
Panarctic Oils Ltd., the Canadian Government-private industry consortium which holds varying interests in all of United Canso's Arctic Islands acreage, is continuing its aggressive exploratory campaign in Canada's extreme north. Although no wells were drilled by the group on Company lands during the past year, drilling has recently been commenced on a well less than one mile east of a large permit in which United Canso retains a 20 percent working interest. This venture, Horn River-Cities Service-Getty Mid Fiord J-53, is located on Axel Heiberg Island and is licensed as a 6,500-foot Middle Triassic test. The structure

Amadeus Basin Permits
Northern Territory, Australia

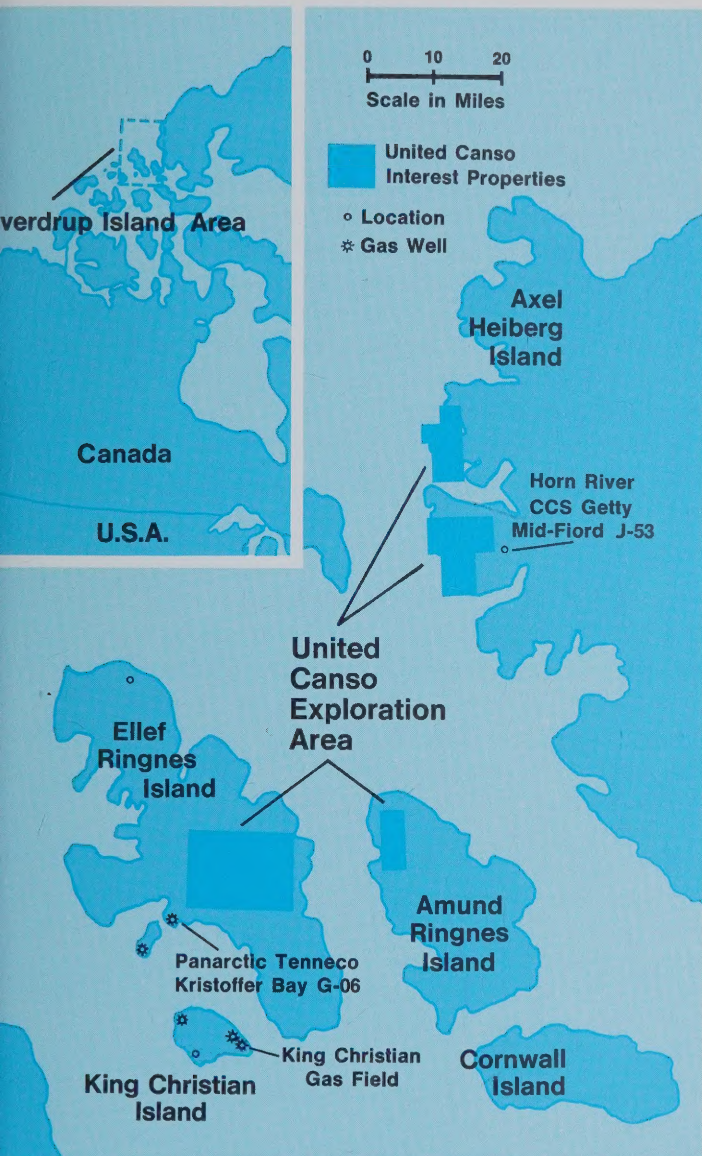


Permits 175 and 178 in the Amadeus Basin, N.T. (12,693,120 Acres)

Palm Valley Field
Northern Territory, Australia



Seismic Contour Map



Sverdrup Island Area

being evaluated is believed to trend northwesterly and success here could be meaningful to United Canso.

Maunoir Lake Area

As related in the Company's 1972 Annual Report, four of United Canso's Maunoir Lake permits, located 150 miles northeast of Norman Wells, N.W.T., were optioned to Imperial Oil Ltd., which carried out a major seismic program over the lands. This option has been extended to allow further seismic work to be carried out this winter. In addition to the geophysical program, a number of stratigraphic tests will be drilled in the region this winter and should assist in evaluating prospects on United Canso acreage.

Western Canada

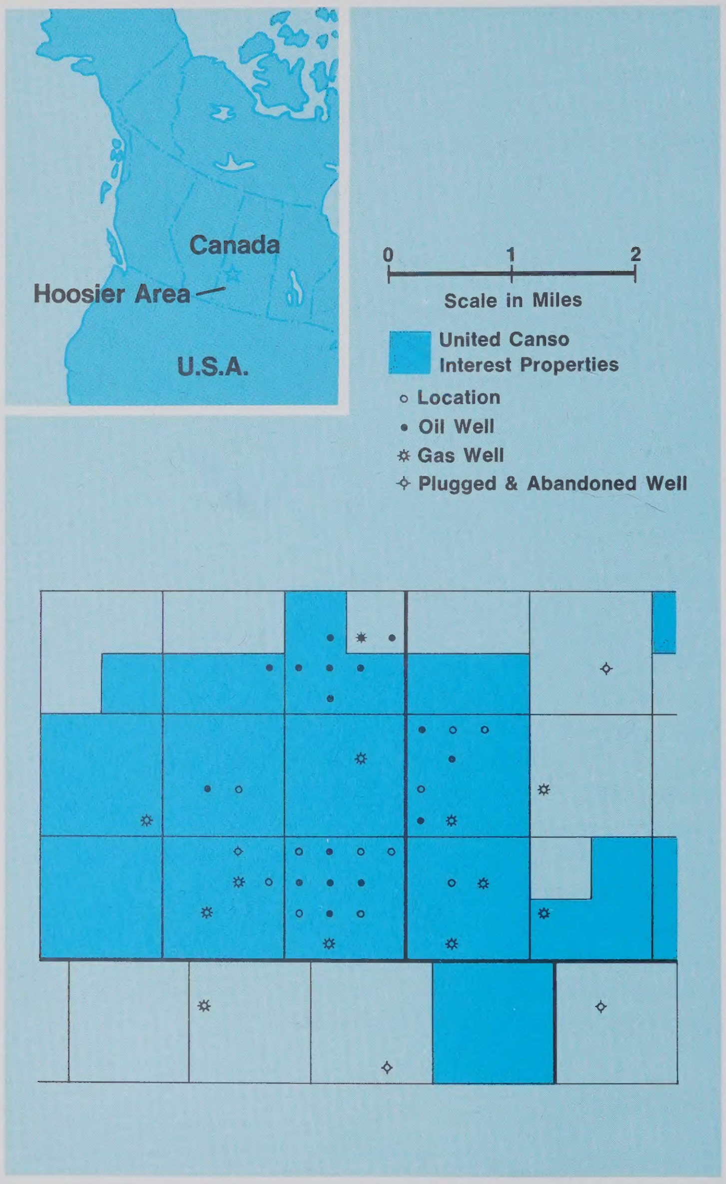
United Canso participated in the drilling of 18 exploratory wells in western Canada during fiscal 1973. Six of these were gas discoveries and four were oil discoveries. Three of the gas discoveries were made in the Lomond-Enchant area of southern Alberta and are expected to be placed on production in the near future.

The most important discoveries made on Company lands in western Canada during 1973 are located in the Hoosier area of western Saskatchewan. Both oil and gas have been found in each of two zones, the Lower Cretaceous Detrital sandstone and the Mississippian Bakken sandstone. Pay thicknesses in excess of 50 feet were recorded in a number of wells, with oil gravity testing 16° API. United Canso and its partner in the Hoosier area, Mesa Petroleum, have now embarked on an extensive development program to exploit these discoveries. While the full consequences of this development effort will not be known until mid-1974, the field is expected to contribute significantly to United Canso's daily oil production and reserves position.

United States
Alaska

Enactment into law, after prolonged delay, of the trans-Alaska pipeline bill by the United States Congress in November 1973 means that construction of this 800-mile transmission system extending from Alaska's North Slope oil fields to the ice-free port of Valdez is likely to be commenced in the spring of 1974 and to be completed by 1977. Capacity of the system is expected to total 600,000 barrels of oil daily at inception and to attain a level of 2,000,000 barrels a day after five years.

It is anticipated that construction of the pipeline will lead to greatly increased levels of exploration in Alaska during coming years, while providing added impetus to an early resolution of



Hoosier Area Saskatchewan

conflicting claims with respect to contested Alaskan property interests.

Wyoming

During fiscal 1973, four wells were drilled on or adjacent to leases in the Parkman area of Wyoming in which United Canso holds interests, resulting in an oil discovery on one of the Company-interest leases in the Heldt Draw Unit.

The discovery well tested in excess of 300 barrels per day of 36.5° API oil on pump. An offset well drilled by others on adjoining lands has been completed and a second follow-up well on a Company lease was spudded in November. The operator, Davis Oil Company, expects to continue development drilling during the winter months.

United Canso holds an extensive acreage position in this area of Wyoming, with working interests varying from 7½ percent to 30 percent in the vicinity of the Heldt Draw discovery. Since oil prices in excess of $6.00 per barrel recently have been realized in Wyoming, continued success in this field could prove a significant asset to the Company.

Mineral Exploration

Borealis Exploration Limited, through which company United Canso participates in certain Canadian mineral exploration, at present holds interests in 481 claims in northern Canada, having allowed some 32 less prospective claims to revert to the Crown. Borealis' most promising properties, the massive iron ore bodies on Melville Peninsula, which contain an estimated 4.36 billion long tons of iron ore, are retained intact and fully protected by claims.

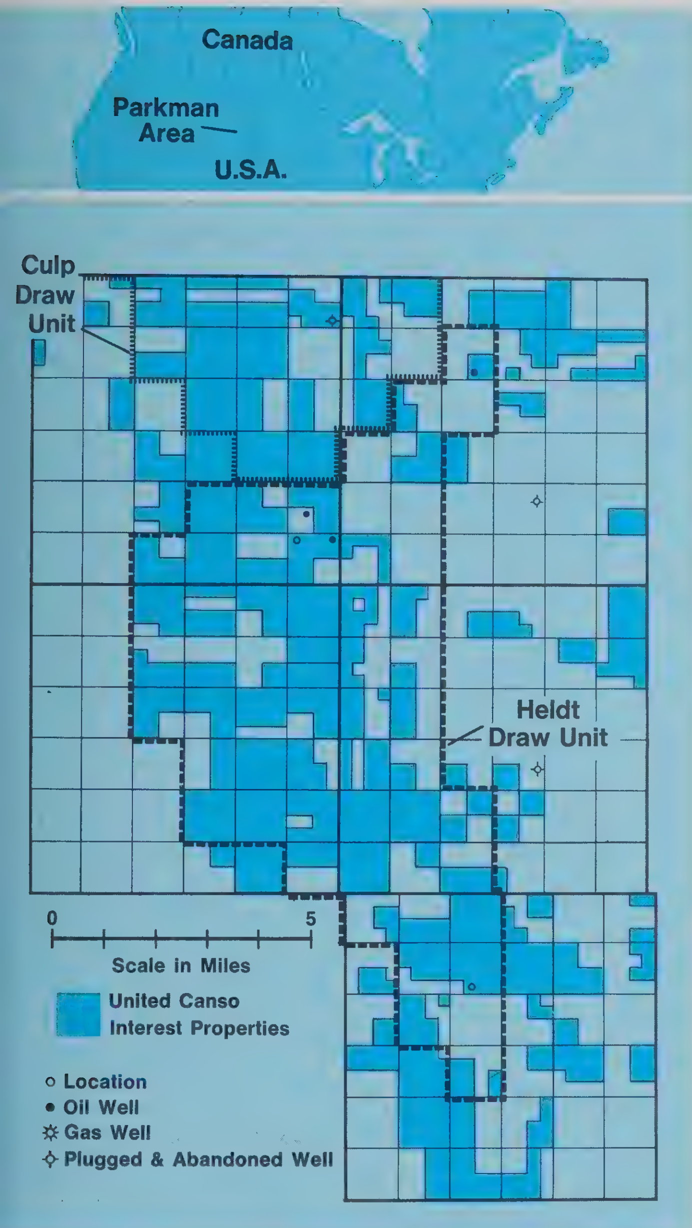
While no further exploration work was conducted by Borealis during the past year, the initiatives displayed by the Canadian Government in convening two conferences devoted to the respective roles of government and industry in resolving a wide range of transportation and energy source problems in the Canadian northland should be helpful to Borealis in evaluating its own energy and transportation needs for the development of the Melville iron deposits.

United Canso owns a 20 percent direct interest in the Melville properties, as well as a 3.81 percent stock interest in Borealis Exploration Limited.

Production and Development

Oil

United Canso's oil production during fiscal 1973, before deduction of royalties, totaled 941,424



Parkman Area Wyoming

barrels, representing a 2 percent decrease from the prior year.

In this period, the Company's most productive leases were in the Innes Field in southeast Saskatchewan, where average production amounted to 606 barrels of oil per day, almost unchanged from the previous year's average output.

Production rates from the leases in the Smiley-Dewar area, which averaged 576 barrels of oil daily, were down 15 percent from the previous year. Continuing decline in oil productivity is to be expected from this waterflood operation.

The third most important contributor to United Canso's Canadian production continued to be Boundary Lake Unit No. 1. The Company's 4.64574 percent Unit participation resulted in an average production rate of 550 barrels of oil per day to the Company, virtually equal to the previous year's rate.

Despite the slight decline in total production from all of the Company's oil properties, net income from this source after royalties and operating costs was up 9 percent from last year, reflecting price increases for crude oil.

Gas

United Canso's gas production for the fiscal year was about 5.3 billion cubic feet before deduction for royalties. This average rate of 14.6 million cubic feet per day was slightly below the previous year's rate.

About two-thirds of United Canso's gas production last year resulted from its interests in the Coleville and Hoosier Viking Sand gas units. Combined production from these two properties was down 3 percent from the previous year.

During the past year, gas-productive lands in the Wainwright area were unitized, resulting in the formation of the Wainwright Colony Sand Gas Unit No. 1. While the effective date of unitization was August 1, 1973, gas deliveries to Alberta Gas Trunk Line Ltd. were begun in March 1973. United Canso's participating interest in the Unit is 27.027 percent. Unit production rates are about 3 million cubic feet per day.

Net income after royalties and operating costs from United Canso's gas producing properties decreased by about 1 percent during the 1973 fiscal year.

Financial

United Canso's gross revenues at $3,416,135 registered a record high level for the fiscal year ended September 30, 1973, representing an increase of 7.9% over gross revenues in the amount of $3,166,762 as restated for the prior year. Net income for the 1973 fiscal year totaled $967,922, equal to 17¢ per share, compared with the previous year's net earnings of $464,375, or 8¢ per share.

United Canso Oil & Gas Ltd. (A Canadian corporation)

Consolidated Balance Sheet

(Expressed in Canadian dollars)

September 30, 1973 and 1972

	1973	1972
Assets		
Current assets:		
Cash	$ 158,488	$ 92,230
Bank deposit receipts and accrued interest	4,206,813	4,170,836
Accounts receivable	592,913	418,199
Refundable deposits	39,508	51,729
Prepaid expenses and other assets	58,349	73,697
Total current assets	5,056,071	4,806,691
Investments and advances:		
Australian companies:		
United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 40% of capital stock, at equity in net assets, and advances of $453,941 and $433,370, respectively	831,955	690,281
Magellan Petroleum (N.T.) Pty. Ltd., 30% of capital stock, at equity in net assets, and advances of $760,633 and $746,876, respectively	1,583,274	1,457,202
	2,415,229	2,147,483
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978	225,000	225,000
3.81% of common stock	84,000	84,000
PXP Steam Power Units Ltd., 50% of capital stock, at equity, and advances of $53,184 and $40,805, respectively	53,186	40,807
Other	82,043	39,260
Property and equipment:		
Oil, gas and mineral interests, at cost or less:		
Producing (less depletion of $3,762,152 and $3,639,669, respectively)	1,083,337	1,231,651
Nonproducing:		
Canada	1,883,312	1,776,945
United States	419,202	402,152
Venezuela (less amortization of $104,191 and $89,306, respectively)	156,286	171,171
United Kingdom	116,820	143,549
Norway	56,805	—
	2,632,425	2,493,817
Well costs and gathering systems, at cost:		
Producing (less depreciation and amortization of $5,996,947 and $5,839,007, respectively)	1,956,992	2,124,390
In process and standing (not presently producing):		
United Kingdom	1,810,546	588,627
Other	312,975	238,904
Land, buildings and equipment, at cost (less depreciation of $172,550 and $175,622, respectively)	44,522	44,402
	$15,756,326	$14,065,032

The accompanying notes are an integral part of this statement.

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities:		
Trade	$ 477,849	$ 326,447
The Catawba Corporation	38,596	39,026
Total current liabilities	516,445	365,473
Deferred income	—	9,000
Commitments and contingent liabilities (Note 3)		
Shareholders' equity:		
Capital stock, par value $1 per share:		
Authorized — 8,000,000 shares		
Outstanding — 5,860,802 and 5,763,902 shares, respectively	5,860,802	5,763,902
Capital in excess of par value	15,983,804	15,499,304
	21,844,606	21,263,206
Accumulated deficit	(6,604,725)	(7,572,647)
	15,239,881	13,690,559
	$15,756,326	$14,065,032

On behalf of the Board:
s/s John W. Buckley, *Director;* s/s Benjamin W. Heath, *Director*

United Canso Oil & Gas Ltd. (A Canadian corporation)

Consolidated Statement of Income and Accumulated Deficit

(Expressed in Canadian dollars)

Year ended September 30, 1973 and 1972

	1973	1972
Revenues:		
Oil sales	$2,416,588	$2,198,505
Gas sales	602,661	598,465
Royalties	106,596	87,832
Interest and miscellaneous	285,582	277,784
Gain on sales of property and equipment	4,708	4,176
	3,416,135	3,166,762
Costs and expenses:		
Geological and geophysical costs	86,472	100,520
Lease and permit rentals	151,798	147,810
Production costs	753,831	756,107
Depletion and amortization	334,782	443,967
Depreciation	129,696	181,096
Dry holes and abandonments	154,152	313,016
General and administrative expenses	830,826	638,820
Adjustment of investment in the Australian companies to equity in net assets at end of year	6,656	121,051
	2,448,213	2,702,387
Net income	967,922	464,375
Accumulated deficit at beginning of year	7,572,647	8,037,022
Accumulated deficit at end of year	$6,604,725	$7,572,647
Net income per share based on average number of shares outstanding during the year	$.17	$.08

Consolidated Statement of Capital Stock and Capital in Excess of Par Value

(Expressed in Canadian dollars)

Year ended September 30, 1972 and 1973

	Number of shares	*Capital stock, $1 par value*	*Capital in excess of par value*	*Total*
Balance at September 30, 1971	5,698,644	$5,698,644	$15,217,383	$20,916,027
Proceeds from exercise of stock purchase warrants	57,758	57,758	244,421	302,179
Proceeds from exercise of stock options	7,500	7,500	37,500	45,000
Balance at September 30, 1972	5,763,902	5,763,902	15,499,304	21,263,206
Proceeds from exercise of stock options	96,900	96,900	484,500	581,400
Balance at September 30, 1973	5,860,802	$5,860,802	$15,983,804	$21,844,606

The accompanying notes are an integral part of this statement.

United Canso Oil & Gas Ltd. (A Canadian corporation)

Consolidated Statement of Changes in Financial Position

(Expressed in Canadian dollars)

Year ended September 30, 1973 and 1972

	1973	1972
Source of working capital:		
Net income	$ 967,922	$ 464,375
Charges against revenues not involving outlay of working capital in the current year:		
Depletion, depreciation and amortization	464,478	625,063
Sales, retirements and abandonments of property and equipment	167,041	123,961
Adjustment of investment in the Australian companies to equity in net assets at end of year	6,656	121,051
Amortization of deferred income	(9,000)	(20,550)
Working capital provided from operations	1,597,097	1,313,900
Proceeds from exercise of stock options	581,400	45,000
Proceeds from exercise of stock purchase warrants	—	302,179
	2,178,497	1,661,079
Disposition of working capital:		
Additions to property and equipment	1,750,525	864,504
Investments in and advances to the Australian companies	274,402	145,102
Investments in and advances to PXP Steam Power Units Ltd.	12,379	40,807
Other investments and advances	42,783	(6,500)
	2,080,089	1,043,913
Increase in working capital	$ 98,408	$ 617,166
Increase (decrease) in working capital by major component:		
Cash	$ 66,258	$ (12,681)
Bank deposit receipts and accrued interest	35,977	602,679
Accounts receivable	174,714	(7,491)
Refundable deposits	(12,221)	(15,881)
Prepaid expenses and other assets	(15,348)	25,191
Accounts payable and accrued liabilities	(150,972)	25,349
Increase in working capital	$ 98,408	$ 617,166

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

September 30, 1973

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of United Canso Oil & Gas Ltd. (United Canso) and its wholly-owned subsidiaries, Canso Oil & Gas, Inc. (Canso Oil & Gas), United Canso Oil & Gas (Norge) A/S and United Canso Oil & Gas (U.K.) Ltd., hereafter referred to collectively as the Company.

The properties in which United Canso Oil & Gas (U.K.) Ltd. has interests are in an exploratory or development stage and, accordingly, all expenditures have been charged to nonproducing property and equipment.

Transactions for settlement in U.S. dollars have been converted at average monthly rates. During the two years ended September 30, 1973, exchange gains and losses have not been significant. Noncurrent accounts of Canso Oil & Gas, United Canso Oil & Gas (Norge) A/S and United Canso Oil & Gas (U.K.) Ltd. were translated into Canadian dollars at historical rates and working capital accounts were translated at year-end rates.

Realization of investments and advances (see Note 2) and of the investment in nonproducing property and equipment (except for costs relating to the United Kingdom) aggregating $5,688,038 and $5,125,722 at September 30, 1973 and September 30, 1972, respectively, is dependent upon future developments, since the properties represented by these assets are substantially unexplored or undeveloped.

The Company carries its investments in the Australian companies at equity in net assets.

Depletion is computed by the unit-of-production method applied to the amounts assigned to the producing portion of interests retained in each original permit area. Depreciation of well equipment and amortization of intangible drilling costs are computed by the unit-of-production method based on estimated reserves available to all existing wells in each field. Depreciation of buildings and equipment is provided on the straight-line method at rates based on the estimated useful lives of the various classes of assets. The net cost of abandoned wells which had previously been producing is charged against the accumulated depreciation and amortization account of the remaining wells in the producing area.

Expenditures for maintenance and repairs of property and equipment are charged to operations. The costs of renewals and betterments are capitalized. When properties are retired or otherwise disposed of, except for the net cost of abandoned wells which had previously been producing, the cost and related accumulated depletion, depreciation or amortization are removed from the accounts, and the resulting gain or loss is credited or charged to operations.

For income tax purposes the Company is entitled to claim deductions for drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related depletion, amortization and depreciation charges reflected in the accounts. At September 30, 1973, for Canadian income tax purposes, accumulated drilling, exploration and lease acquisition costs in the amount of $8,250,000 and undepreciated capital costs in the amount of $890,000 remain to be carried forward indefinitely and applied against future taxable income. For United Kingdom income tax purposes, accumulated drilling, exploration and lease acquisition costs in the amount of $1,980,000 remain to be carried forward indefinitely and applied against future taxable income.

The Company follows the general practice of the oil and gas industry in the United States and Canada insofar as it maintains that income tax allocation is not appropriate at this time. In any case, this practice has no effect on reported net income in the current or prior years. In accordance with this practice, the Company has not reported as an extraordinary item the reduction in income taxes (1973-$406,000, 1972-$196,000) which would otherwise be payable currently, caused by an excess of tax deductions over deductions reported for financial statement purposes. This represents the realization of tax benefits relating to charges against income reported in prior years for which no tax benefits were then recognized because of the uncertainty of realization.

2. Investments and advances

United Canso acquired a substantial portion of its interest in the Australian companies from Magellan Petroleum Corporation (Magellan) in September 1963. A substantial interest in the Australian companies is held (directly or indirectly) by Magellan and Pantepec International, Inc. (see Note 4).

The Australian companies have interests in petroleum and mineral exploration concessions and permits where exploratory activities are in progress. In connection with these activities, the Australian companies have entered into agreements with various companies covering exploration of certain property interests held. Under these agreements the various companies have earned or may earn up to a 50% working interest in such property interests.

Certain Australian mineral interests were abandoned during fiscal 1973 and 1972 resulting in reductions of $6,656 and $121,051, respectively, in United Canso's equity in net assets of the Australian companies; in addition, in 1972 the entire advance of $22,421 to Magellan Petroleum (Qld.) Pty. Ltd. was written off following that company's relinquishment of all properties. United Canso's equity in the combined net assets (adjusted to cost) of the Australian companies was $1,200,655 and $967,237 at September 30, 1973 and 1972, respectively. These net assets consist primarily of deferred drilling, geological, geophysical and administrative costs.

Borealis Exploration Limited (Borealis), in consideration of the Company's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of $225,000 and agreeing to assist in maintaining Borealis' books and records at the Company's expense for the period ending March 31, 1972, issued to the Company 90,000 fully-paid and nonassessable shares of its common stock. These shares, valued at $84,000, based on the above-mentioned considerations, represent 3.81% of the outstanding common shares of Borealis at September 30, 1973 and 1972. Interest due after March 31, 1973 ($9,000 at September 30, 1973) on the 8% unsecured debentures will not be recorded by the Company until its collection is certain. The Company's equity in net assets of Borealis was approximately $23,400 and $24,853 at September 30, 1973 and 1972, respectively. These net assets consist primarily of deferred exploratory and administrative costs. Borealis is engaged in mineral exploration in northern Canada.

3. Property and equipment

On August 27, 1968, United Canso, through its subsidiary, Canso Oil & Gas, agreed to purchase a 25% interest in certain filings for federal leases in the State of Alaska. Initial consideration of $1.00 (U.S.) per net acre was paid by the issuance of 42,596 shares of United Canso's capital stock. Within thirty days of the date the leases are issued, an additional $3.00 (U.S.) per net acre is payable in cash or shares of United Canso's capital stock at the election of the Company, or the Company may elect to assign to the original lease applicants a net profits interest of 25% of the Company's interest in the leases issued. The Company will be reimbursed at the rate of 50¢ (U.S.) per acre, or equivalent stock, for each net acre for which leases are not issued. In July 1971, the Company made a payment of $23,558 (10¢ (U.S.) per net acre) which may be applied to reduce the $3.00 (U.S.) per net acre or the net profits interest assignable in the leases issued. The issuance of leases has been delayed pending the settlement of native claims to certain of these areas.

United Canso's interest in a nonproducing concession in Venezuela was acquired from Pancoastal, Inc. in 1961. Currently, United Canso's interest consists of a 50% interest in a sliding-scale royalty ranging from 3¢ to 8¢ per barrel on 50% of the gross production in excess of 5,000 barrels per day from the concession. The cost of United Canso's interest is being amortized over the remaining period of the concession rights, which expire in 1984.

United Canso, through its wholly-owned subsidiary, United Canso Oil & Gas (U.K.) Ltd., has acquired petroleum licenses in United Kingdom waters of the Irish Sea and the North Sea. At September 30, 1973, four successful wells had been drilled in the Thistle Field in the North Sea.

Lease rentals, work requirements and drilling commitments in connection with properties and property interests held by the Company at September 30, 1973 approximate $2,129,000 for the year ending September 30, 1974.

4. The Catawba Corporation

United Canso's current (expiring April 1974) and prior contracts for financial, technical and other services with The Catawba Corporation (Catawba) have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by United Canso during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. During the year ended September 30, 1973 and 1972, the Company was charged $297,803 and $176,434, respectively, under this contract. Catawba provides similar services to the Australian companies, Borealis Exploration Limited, Magellan Petroleum Corporation, Pantepec International, Inc., Pancoastal, Inc. and Canada Southern Petroleum Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of United Canso and of the other companies mentioned above.

5. Capital, stock purchase warrants, and stock options and reservations

During the year ended September 30, 1972, stock purchase warrants were exercised for the purchase of 57,758 shares of the Company's capital stock with proceeds to the Company of $302,179. The remaining warrants expired March 30, 1972.

Under the Company's old incentive stock option plan, options to purchase shares had been granted to Catawba for 100,000 shares and to officers and employees for 141,500 shares. During the two years ended September 30, 1973, options were exercised on 36,500 shares at $6.00 per share, as compared with market prices ranging from $6.84 to $8.72 per share on dates of exercise.

On December 13, 1972, United Canso's Board of Directors authorized a new incentive stock option plan on 300,000 shares of United Canso's capital stock. Under this plan, options were granted as follows:

Optionee	*Date of grant*	*Expiration date*	*Number of shares*	*Option price (per share)*	*Market price (per share) at date of grant*
Officers	Dec. 15, 1972	Dec. 14, 1977	43,000	$6.00	$6.48
Employees	Dec. 15, 1972	Dec. 14, 1977	87,500	6.00	6.48
Catawba	Mar. 30, 1973	Mar. 31, 1978	150,000	8.00	7.23

All of these options were immediately exercisable upon the date of grant. During the year ended September 30, 1973, officers and employees exercised options on 40,500 shares and 27,400 shares, respectively, at $6.00 per share, as compared with market prices ranging from $7.91 to $17.02 per share, amounting to $911,903 on dates of exercise.

Stock options outstanding at September 30, 1973 are summarized as follows:

Optionee	*Date of grant*	*Expiration date*	*Number of shares*	*Option price (per share)*	*Market price (per share) at date of grant*
Employee	May 23, 1969	May 22, 1974	7,500	$9.50	$9.43
Officers	Dec. 15, 1972	Dec. 14, 1977	2,500	6.00	6.48
Employees	Dec. 15, 1972	Dec. 14, 1977	60,100	6.00	6.48
Catawba	Mar. 30, 1973	Mar. 31, 1978	150,000	8.00	7.23
			220,100		

At September 30, 1973, all of the above-mentioned options on 220,100 shares were exercisable. In addition, there were 19,500 shares reserved for future option grants at September 30, 1973. There were no other changes in stock options during the two years ended September 30, 1973.

The Company's by-law No. 6 provides that no person (as defined in such by-law) shall vote more than 1,000 shares.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Contributions by the Company to the pension plan on behalf of all employees were $44,472 and $36,916 for the year ended September 30, 1973 and 1972, respectively.

Certain employees and office facilities are shared with Canada Southern Petroleum Ltd. and certain of the costs and expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by United Canso, including contributions to a pension plan on their behalf, amount to $177,858 and $141,351 for the year ended September 30, 1973 and 1972, respectively. Of these amounts, $2,394 and $2,374 were on behalf of directors and $70,257 and $50,448 were on behalf of officers. At September 30, 1973, there were seven directors and four officers, of which two officers were also directors.

Auditor's Report

The Board of Directors
United Canso Oil & Gas Ltd.

We have examined the accompanying consolidated balance sheet of United Canso Oil & Gas Ltd. at September 30, 1973 and 1972 and the related consolidated statements of income and accumulated deficit, of changes in financial position and of capital stock and capital in excess of par value for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the realization of investments and advances and nonproducing property and equipment (except for costs relating to the United Kingdom) in the consolidated balance sheet as discussed in Note 1, the statements mentioned above present fairly the consolidated financial position of United Canso Oil & Gas Ltd. at September 30, 1973 and 1972 and the consolidated results of operations and consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO

Hartford, Connecticut
November 21, 1973

Design: The Columbia Group

Printed in U.S.A.